



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MERCER COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Auditor of Public Accounts has completed the Mercer County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$684,365 from the prior fiscal year, resulting in a cash surplus of \$3,787,953 as of June 30, 2000. Revenues decreased by \$52,801 from the prior year and disbursements increased by \$28,993.

Debt Obligations:

Capital lease principal agreements totaled \$ 212,000 as of June 30, 2000. Future principal and interest payments of \$232,531 are needed to meet these obligations.

Deposits:

As of June 30, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$16,717 of public funds uninsured and unsecured.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
MERCER COUNTY OFFICIALS	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS	6
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES	10
NOTES TO FINANCIAL STATEMENTS	12
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE	19
SCHEDULE OF OPERATING REVENUE7.....	23
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES	27
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	31
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles H. McGinnis, Mercer County Judge/Executive

Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Mercer County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit..

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Mercer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2000 of Mercer County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles H. McGinnis, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 25, 2001, on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Mercer County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 25, 2001

MERCER COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

Fiscal Court Members:

Charles H. McGinnis	County Judge/Executive
Marshall Wayne Russell	Magistrate
J.B. Claunch	Magistrate
Larry Peyton	Magistrate
James William Waggener	Magistrate
Wayne T. Jackson	Magistrate
Charles T. Hurst	Magistrate

Other Elected Officials:

Douglas L. Greenburg	County Attorney
Cleo W. Baker	Jailer
Larry Short	County Clerk
Rose Bishop	Circuit Court Clerk
Ralph L. Anderson	Sheriff
Neila L. Monroe	Property Valuation Administrator
David Ransdell	Coroner

Appointed Personnel:

Gayle Horn	County Treasurer
Carmen Freeman	Occupational Tax Collector

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

MERCER COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:	
Cash	\$ 780,913
Investments	200,000
Road and Bridge Fund:	
Cash	767,533
Investments	110,000
Jail Fund:	
Cash	30,999
Investments	362,582
Local Government Economic Assistance Fund:	
Cash	50,622
Landfill Fund:	
Cash	191,331
Occupational License and Net Profit Tax Fund:	
Cash	850,128
Investments	443,845
Payroll Account:	
Cash	<u>11,568</u>
Total Assets	\$ 3,799,521

Other Resources

General Fund Type

General Fund:	
Amounts to be Provided in Future Years for Kentucky	
Association of Counties Leasing Trust Agreement - Principal	<u>212,000</u>
Total Assets and Other Resources	<u><u>\$ 4,011,521</u></u>

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2000
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund - Kentucky Association of Counties

Leasing Trust Agreement - Principal (Note 4)

\$ 212,000

Payroll Account

11,568

Total Liabilities

\$ 223,568

Fund Balances

Reserved:

General Fund Type

Landfill Fund

191,331

Unreserved:

General Fund Type

General Fund

\$ 980,913

Road and Bridge Fund

877,533

Jail Fund

393,581

Local Government Economic Assistance Fund

50,622

Occupational License and Net Profit Tax Fund

1,293,973

3,596,622

Total Liabilities and Fund Balances

\$ 4,011,521

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MERCER COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,972,990	\$ 1,654,098	\$ 798,697	\$ 111,741
Transfers In	1,232,460	532,460	500,000	100,000
Total Cash Receipts	<u>\$ 5,205,450</u>	<u>\$ 2,186,558</u>	<u>\$ 1,298,697</u>	<u>\$ 211,741</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,224,625	\$ 1,655,448	\$ 1,142,506	\$ 206,255
Transfers Out	1,232,460	100,000	32,460	
Kentucky Association of Counties Leasing Trust - Principal Payment	64,000	64,000		
Total Cash Disbursements	<u>\$ 4,521,085</u>	<u>\$ 1,819,448</u>	<u>\$ 1,174,966</u>	<u>\$ 206,255</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 684,365	\$ 367,110	\$ 123,731	\$ 5,486
Cash Balance - July 1, 1999	3,103,588	613,803	753,802	388,095
Cash Balance - June 30, 2000 *	<u><u>\$ 3,787,953</u></u>	<u><u>\$ 980,913</u></u>	<u><u>\$ 877,533</u></u>	<u><u>\$ 393,581</u></u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2000
 (Continued)

General Fund Types		
Local Government Economic Assistance Fund	Landfill Fund	Occupational License and Tax Net Profit Fund
\$ 32,582	\$ 69,891 100,000	\$ 1,305,981
<u>\$ 32,582</u>	<u>\$ 169,891</u>	<u>\$ 1,305,981</u>
\$ 48,446	\$ 126,625	\$ 45,345 1,100,000
<u>\$ 48,446</u>	<u>\$ 126,625</u>	<u>\$ 1,145,345</u>
\$ (15,864) 66,486	\$ 43,266 148,065	\$ 160,636 1,133,337
<u>\$ 50,622</u>	<u>\$ 191,331</u>	<u>\$ 1,293,973</u>

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Mercer County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Mercer County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Mercer County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Landfill Fund, and the Occupational License and Net Profit Tax Fund.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Mercer County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MERCER COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2000
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court:

- North Mercer Water District
- Mercer County Public Library

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

- Harrodsburg/Mercer County Industrial Development Authority
- Anderson-Dean Community Park
- The Greater Harrodsburg/Mercer County Planning and Zoning Commission

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of June 30, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$16,717 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 2,994,911
Uncollateralized and uninsured	<u>16,717</u>
Total	<u><u>\$ 3,011,628</u></u>

Note 4. Capital Lease-Purchase Agreements

On April 3, 1996, the Mercer County Fiscal Court entered into a 7-year leasing agreement with KACo Leasing Trust for the Mercer County Health Department. Principal payments are due annually by January 20.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
1/20/2001	\$ 10,997	\$ 67,000
1/20/2002	6,920	70,000
1/20/2003	<u>2,614</u>	<u>75,000</u>
Totals	<u><u>\$ 20,531</u></u>	<u><u>\$ 212,000</u></u>

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 5. Mercer County Public Health Taxing District Sublease Agreement

On April 3, 1996, the Mercer County Fiscal Court entered into a 7-year leasing agreement with KACo Leasing Trust for the Mercer County Health Department. On that same date, the Mercer County Fiscal Court and the Mercer County Public Health Taxing District entered into a sublease which stated the Mercer County Public Health Taxing District will reimburse the county all rental payments as set out in the county's KACo Leasing Trust agreement. Fiscal year 1999-2000 payments were received by Mercer County on March 27, 2000 and May 24, 2000.

Note 6. Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility shall be owned by Boyle County and Mercer County agrees to pay a percentage, not below 35%, nor to exceed 50%, of the yearly costs in exchange for use of the facility for Mercer County prisoners.

Note 7. Insurance

For the fiscal year ended June 30, 2000, Mercer County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a Landfill, which ceased operations on June 30, 1992. The county initiated closure operations in August 1991. Closure costs were estimated to be \$52,700 and the county completed the steps necessary to close the landfill. The county appears to have met all federal, state and local laws and regulations with regard to closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings of the groundwater monitoring activities. Postclosure costs are estimated to be \$20,000 per year and are paid from the County's annual appropriations; inflation, deflation, technology or applicable laws and regulations could affect this amount.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MERCER COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 1,777,909	\$ 1,654,098	\$ (123,811)
Road and Bridge Fund	713,828	798,697	84,869
Jail Fund	76,347	111,741	35,394
Local Government Economic Assistance Fund	39,000	32,582	(6,418)
Landfill Fund	45,000	69,891	24,891
Occupational License and Net Profit Tax Fund	912,000	1,305,981	393,981
Totals	<u>\$ 3,564,084</u>	<u>\$ 3,972,990</u>	<u>\$ 408,906</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 3,564,084
Add: Budgeted Prior Year Surplus	750,618
Less: Other Financing Uses	<u>(64,000)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 4,250,702</u>

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE

MERCER COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

	<u>GOVERNMENTAL FUND TYPE</u>
	<u>General Fund Type</u>
REVENUE:	
Taxes	\$ 2,136,634
In Lieu Tax Payments	11,130
Excess Fees	136,069
License and Permits	43,084
Intergovernmental Revenues	1,370,011
Charges for Services	69,148
Miscellaneous Revenues	75,181
Interest Earned	<u>131,733</u>
Total Operating Revenue	<u><u>\$ 3,972,990</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MERCER COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 701,264	\$ 518,600	\$ 182,664
Protection to Persons and Property	748,200	491,271	256,929
General Health and Sanitation	265,550	223,474	42,076
Social Services	52,750	34,329	18,421
Recreation and Culture	686,675	405,477	281,198
Transportation Facilities and Services	17,500	13,922	3,578
Roads	1,083,200	1,033,045	50,155
Other Transportation Facilities and Services	700	650	50
Debt Service	12,402	12,401	1
Capital Projects	47,000	46,977	23
Administration	635,461	444,479	190,982
Total Operating Budget - All General Fund Types	\$ 4,250,702	\$ 3,224,625	\$ 1,026,077
Other Financing Uses:			
KACO Leasing Trust Agreement - Health Department	64,000	64,000	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 4,314,702</u>	<u>\$ 3,288,625</u>	<u>\$ 1,026,077</u>

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles H. McGinnis, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Mercer County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated June 25, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mercer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mercer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 25, 2001

CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MERCER COUNTY FISCAL COURT


Fiscal Year Ended June 30, 2000

Appendix A

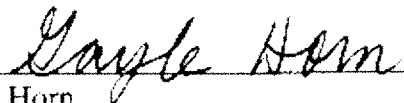
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MERCER COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistant Program was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes



Charles H. McGinnis
Judge Executive



Gayle Horn
County Treasurer